

CREDIT AND DIVORCE

Jane and John were recently divorced. Their court-approved divorce decree stated that John would pay the balances on their three joint credit card accounts. Some months later, after John neglected to pay off these accounts, all three creditors contacted Jane for payment. She referred them to the divorce decree, insisting that she was not responsible for the accounts. The creditors stated, correctly, that they were not parties to the divorce decree and that Jane was still legally responsible for paying off the couple's joint accounts. Jane later found out that the late payments appeared on her own credit report.

If you have recently been through a divorce, or are contemplating one, you may want to look closely at issues involving credit. As the above example illustrates, you may discover unanticipated problems. Understanding the different kinds of credit accounts opened during a marriage may help illuminate the potential benefits and pitfalls of each.

There are two types of credit accounts: individual and joint. With either type, you can permit authorized users to use the account. When you apply for credit, whether a credit card or a mortgage loan, you will be asked to select one kind.

Individual Accounts

When you apply for an individual account:

- ◆ Only your own income, assets, and credit history are considered by the creditor.
- ◆ Whether married or single, you alone are responsible for paying off the debt on this account.
- ◆ The account will appear only on your credit report.

Advantages/Disadvantages:

If you are able to open an account in your own name, nobody else can adversely affect your credit record.

For spouses who do not work for pay outside the home, work part-time, or work in lower-paying jobs, it may be difficult to demonstrate a strong financial picture without the income of the other spouse.

Joint Accounts

The income, financial assets, and credit history of both spouses are taken into consideration for a joint account. No matter who actually handles the household bills, both spouses are responsible for seeing that all debts are paid. A creditor who reports the credit history of a joint account to credit bureaus must report it in both names.

Advantages/Disadvantages

A joint application combining the financial resources of two people may present a stronger case to a creditor for granting a loan or credit card.

But because both spouses applied together for the credit, each is legally responsible to the creditor for the entire debt accumulated. This is true for a joint account even if a divorce decree assigns separate debt obligations to each spouse.

A former spouse can adversely affect another spouse's credit history on jointly-held accounts; for example, by running up bills and not paying them.

"Users" on Your Account

If you open an individual account, you may authorize another person to use that account. If the "user" is a spouse, a creditor who reports the credit history to a credit bureau must report it in the name of the spouse as well as in the individual's name.

While a "user" may use the account, they are not contractually liable for paying the debt. If you are permitting others to use your credit card, know that you alone are responsible for paying the bills.

What to do in the Event of Divorce

If you are contemplating divorce or separation, be sure to pay attention to the status of your credit accounts. If you maintain joint accounts during that time, it is important to make regular payments or your credit might suffer.

You may want to ask creditors to close any joint accounts or accounts in which your former spouse was an authorized user. Or, preferably, ask the creditor to convert these accounts to individual ones or to the name of the spouse handling that debt.

By law, a creditor cannot close a joint account because of a change in marital status, but can do so at the request of either spouse.

A creditor, however, does not have to agree to change joint accounts to individual ones. The creditor can require you to reapply for credit on an individual basis and then, based on your new application, extend or deny you credit.

REMEMBER. . .

- ◆ If you are divorcing your spouse, pay special attention to credit accounts held jointly, including mortgage, home equity loans, and credit cards.
- ◆ A joint account means both spouses are legally responsible to the creditor for the account. This is true even if a divorce decree makes one spouse responsible for paying off the joint account (since creditors are not a party to this agreement).
- ◆ In conjunction with a divorce, ask creditors to close any joint accounts. Try to convert to or reopen these as individual accounts.
- ◆ On joint-held accounts, your credit record will suffer if a former spouse handles it irresponsibly. This could happen, for example, if a former spouse makes numerous charges on a credit card and then refuses to pay.

If you signed the contract, you are still legally responsible for payment if your spouse does not pay.

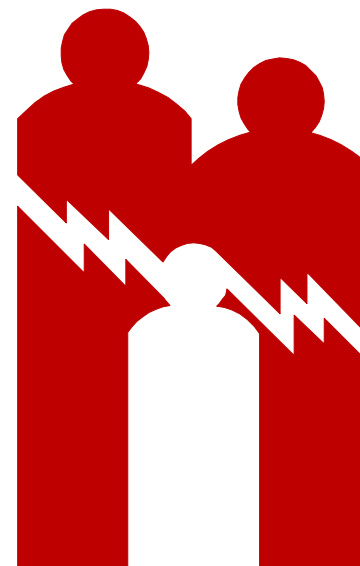
The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
- Credit and Divorce
- Credit and Older Consumers
- Deep in Debt?
- Equal Credit Opportunity
- Fair Credit Reporting
- Fair Debt Collection
- Gold Cards
- Hang up on Fraud
- High Rate Mortgages
- Home Equity Credit Lines
- How to Avoid Bankruptcy
- Indiana Uniform Consumer Credit Code
- Look Before you Lease
- Mortgage Loans
- Repossession
- Reverse Mortgage Loans
- Rule of 78s – What is it?
- Scoring for Credit
- Shopping for Credit
- Using Credit Cards
- Variable Rate Credit
- What is a Budget?
- What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information. You can also access information at our web site on the Internet: <http://www.dfi.state.in.us>, then click on Consumer Credit.



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DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division

402 West Washington Street, Room W066

Indianapolis, Indiana 46204

317-232-3955

1-800-382-4880

Web Site <http://www.dfi.state.in.us>

